



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Quarterly Labour Market Report

May 2019





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New Zealand's Labour Market

- The labour market slowed slightly but remained tight in the March quarter. Both labour demand and supply weakened, leading to a drop in the employment rate to 67.5 per cent.
- Employment growth has flattened over the last six months, as skill shortages persisted, and business confidence and profitability remained low.
- Labour supply has shrunk, with overall net migration slowing and more males moving into retirement, leading to a reduction in the participation rate.
- Spare labour capacity was limited, with decreases in both the unemployment and underutilisation rates, and businesses reporting difficulties finding labour.
- The gender gap is closing, with annual filled job growth driven by women, and the long-term trends in the unemployment and NEET rates for men and women converging.
- Wage inflation has strengthened due to the minimum wage increase, the nurses' pay settlement and overall labour market tightness.

1. Labour Demand

■ SUMMARY

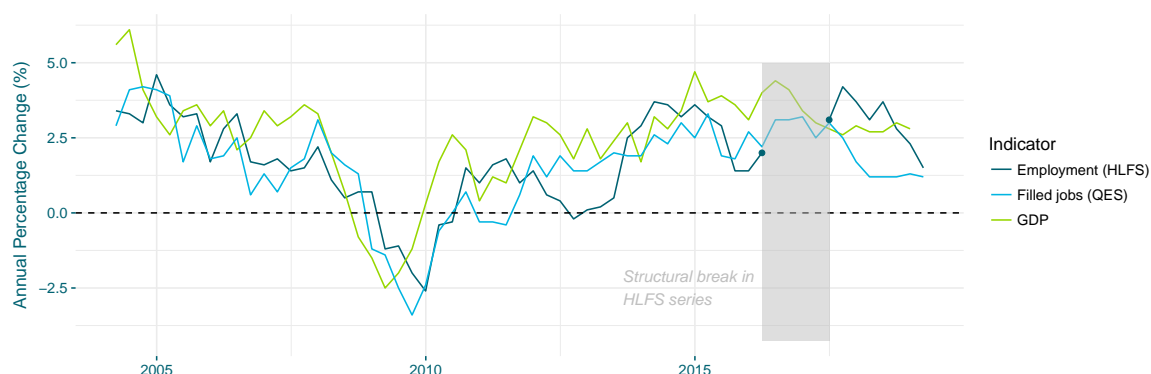
- Employment growth has flattened over the last six months.
- Annual filled job growth was driven by women and concentrated in the Construction and Wholesale Trade industries.
- Profitability and business confidence remained low. Online job advertising was strong in most regions and skill shortages remained a problem.
- MBIE expects labour demand to weaken over the next year, with employment growth remaining strongest for highly-skilled occupations, as economic growth eases.

Employment growth has slowed in recent months

Employment fell slightly in the March 2019 quarter, decreasing by 4,000 people (down 0.2 per cent). As such, New Zealand's employment rate (the proportion of the working-age population who are employed) fell to 67.5 per cent, down from 67.8 per cent last quarter and a peak of 68.2 per cent in September 2018. This was the highest rate since the series began in 1986.

Annually, the total number of people employed rose by 38,000 (up 1.5 per cent from the previous year). Two thirds of this increase was women, with female employment up 25,000 and male employment up 13,000. Over the year, the employment rate for women rose slightly to 62.8 per cent (up from 62.6 per cent in March 2018, but down from the record of 63.4 per cent in September 2018) while the employment rate for men fell to 72.3 per cent (down from 73.1 per cent in March 2018).

Figure 1: Indicators of labour demand



Sources: Household Labour Force Survey (HLFS), Quarterly Employment Survey (QES), National Accounts

Stronger annual filled job growth for women

Filled jobs saw annual growth of 22,100 (up 1.1 per cent), with 18,700 more jobs held by women and 3,400 by men.¹ The biggest gender shifts happened in the Retail Trade industry with 7,400 more jobs filled by women but 3,800 fewer by men, and the Professional, Scientific, Technical, Administrative and Support Services industry with 2,000 more jobs filled by women but 8,300 fewer by men. The largest annual increases in filled jobs was in the Construction (up 14,200 jobs) and Wholesale Trade (up 9,000 jobs) industries.

Construction activity remains at a high level despite some uncertainty

After exhibiting strong growth since 2013, employment in the Construction industry fell slightly to 241,800 people, an annual decrease of 5,000 people or 2.0 per cent. Over half of this decline was due to a drop in the number of employers to 26,900 (down 2,700 or 9.1 per cent). Construction businesses reported a drop in profitability and falling construction demand in the March quarter.² However MBIE continues to forecast sustained growth for building and construction nationally, with activity remaining at current elevated levels until the end of 2020, and growth expected from 2021 to 2023 (the end of the forecast period).³ Online job advertising in the construction sector showed growth of 4.3 per cent over the year.⁴

Other industries showing annual employment falls were Education and Training (down 16,500 people or 7.1 per cent) and Manufacturing (down 13,900 people or 5.5 per cent). The largest

¹The number of filled jobs (Quarterly Employment Survey) is different to employment (Household Labour Force Survey); filled jobs is a count of jobs while employment is a count of people. The two surveys also have different coverage. The QES is a survey of employers that excludes self-employed people, the Agriculture industry, unpaid family workers and New Zealand Defence Force, while the HLFS is a survey of households that only includes usually resident New Zealanders, so can exclude some temporary seasonal labourers.

²NZIER, Quarterly Survey of Business Opinion, March 2019

³MBIE, National Construction Pipeline Report 2018

⁴MBIE, Jobs Online, March 2019

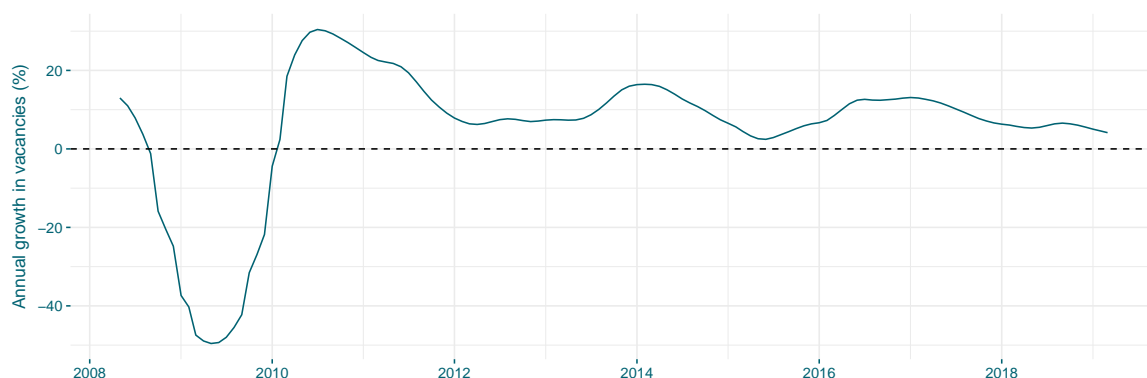
increase in employment was in the Professional, Scientific, Technical, Administrative and Support Services industry (up 21,500 or 6.4 per cent).

Annual employment growth was stronger in the North Island

Over the year employment growth was concentrated in the North Island, with annual employment growth outpacing working-age population growth in Wellington, Manawatu – Wanganui and Taranaki. Auckland also showed strong employment growth (up 26,600 people or 2.9 per cent). There was a significant drop in employment in Canterbury over the year (down 12,500 people or 3.6 per cent). These falls were spread across the Agriculture, Forestry, and Fishing and Mining, Education and Training, Construction, and Retail Trade and Accommodation industries.

Annual growth in online job advertisements by region was led by Gisborne / Hawke’s Bay with 22.0 per cent, and was strong in all other regions (ranging from 6.1 to 13.4 per cent) except Auckland with 2.7 per cent and Canterbury with an annual drop of 3.6 per cent.

Figure 2: Annual growth in all vacancies



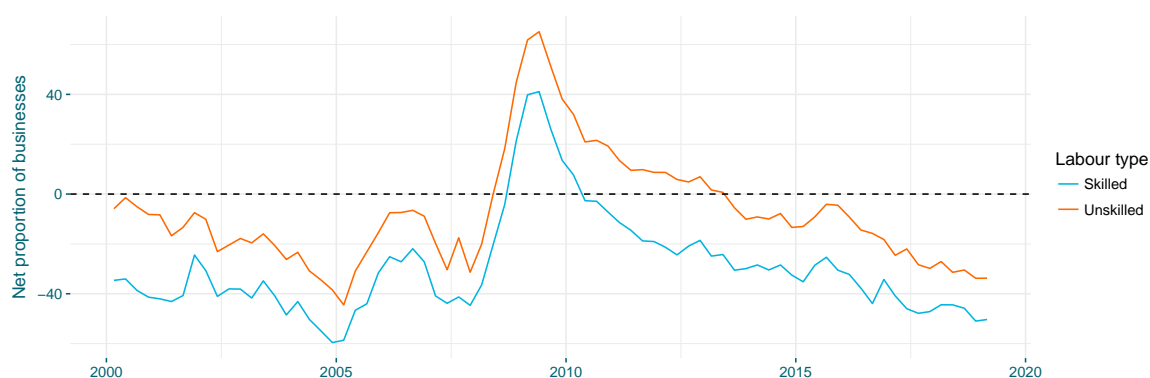
Source: MBIE Jobs Online

Skill shortages remained acute

Reported labour shortages remained acute in the March quarter. According to NZIER’s Quarterly Survey of Business Opinion (QSBO), a net 50 per cent of businesses reported having trouble finding skilled labour and 33 per cent reported trouble finding unskilled labour.⁵ These reported difficulties have been steadily increasing since 2009. Annual online advertising growth was strongest for highly-skilled, followed by skilled then unskilled jobs. This distribution of job vacancy growth and difficulties finding labour, together with a relative lack of employment growth, potentially indicates a growing skill mismatch in the labour force.

⁵NZIER, Quarterly Survey of Business Opinion, March 2019

Figure 3: Ease of finding labour



Source: NZIER Quarterly Survey of Business Opinion

Business confidence falls as profitability remains low

The QSBO showed business confidence has fallen in the March quarter after improving slightly towards the end of 2018, with a net 27 per cent of businesses expecting economic conditions to worsen over the coming months (up from 18 per cent last quarter). ANZ's Business Outlook, which is more heavily weighted towards the primary sector, also fell to show a net 38 per cent of businesses were pessimistic about the year ahead (up from 24 per cent last quarter).⁶

Continued weak profitability remains a concern, with a net 21 per cent of businesses reporting worsening profitability in the March quarter. Businesses are cautious about expanding, with a net six per cent of businesses expecting to increase headcount over the next quarter.⁷ ANZ's Business Outlook reported a slight drop in employment intentions and profit expectations over the quarter.

Labour demand is forecast to weaken as economic growth eases

Employment growth is forecast to slow in the 2020 March year, with an overall employment increase of 43,600 people or 1.7 per cent. The largest contributions to this growth are expected to come from Business Services, Construction, and Health and Community Services.⁸

Employment growth is expected to be concentrated among highly skilled occupations, particularly business and system analysts and programmers, ICT managers and legal professionals. Growth among mid-skilled occupations will be lower, but concentrated among construction-related trades: glaziers, plasterers and tilers, plumbers and electricians. Among lower-skilled occupations, the highest demand will be for construction labourers, prison and security workers and office and practice managers.

⁶ANZ Business Outlook, March 2019

⁷NZIER, Quarterly Survey of Business Opinion, March 2019

⁸MBIE, Short-term Employment Forecast 2017-2020 (February 2018)

2. Labour Supply

■ SUMMARY

- Labour supply has shrunk, with more males moving into retirement.
- Work visa arrivals continued to grow as overall net migration slowed.
- The change to using administrative data has caused a drop in net migration numbers, which is yet to be reflected in working-age population estimates.

Labour supply has decreased

New Zealand's labour force shrank by 0.3 per cent (down 8,000 people) in the March quarter, with 11,000 fewer men and 3,000 more women active in the labour market. The working-age population grew by 0.3 per cent (up 13,000 people) over the same period, leading to a drop in the labour force participation rate to 70.4 per cent.

Two factors have traditionally underpinned New Zealand's high rate of labour force participation: high levels of net inward migration, and increased participation among older workers (aged 55 and over).⁹ A large proportion of migrants are in the 25-34 year age bracket, so the high level of net migration over the last four years has led to a shift in the age distribution of the labour force.

Over the last year there was an increase of 37,800 more people not in the labour force (NILF). This increase was more than two-thirds men, with 25,900 more males NILF, and of this number 20,600 were aged 55 and older. This appears to signal the start of a shift in the composition of the labour market, with male baby-boomers beginning to enter retirement in increasing numbers.

Net migration has been slowing for the last two years

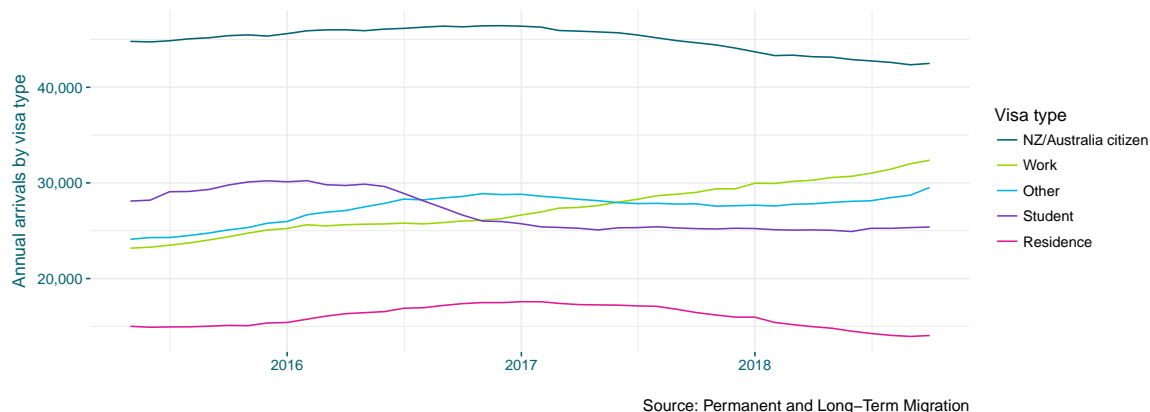
After reaching a record high of 63,900 in the July 2016 year, net inward migration has been tracking downwards. In the year to October 2018 there were 143,800 arrivals (up 700 from the previous year) and 92,700 departures (up 4,100 from previous year), resulting in net inward migration of 51,200.

The composition of arrivals has shifted over the past three years. Work visa arrivals have continued to grow, with 32,400 migrants arriving on work visas in the October 2018 year (up 3,400 from the previous year). Annual student visa arrivals have plateaued, and are currently at

⁹A detailed breakdown of the structural drivers of New Zealand's participation rate can be found in Culling and Skilling, "How does New Zealand stack up? A comparison of labour supply across the OECD," *Reserve Bank of New Zealand Bulletin*, 81(2), April 2018

25,400 after dropping from 29,800 three years ago.

Figure 4: Annual migrant arrivals by visa type



Changes to migration measures will have flow-on effects for population estimates

Previously, migrants were identified purely based on intentions stated on their arrival and departure cards. Because intentions can change, Stats NZ began to produce an outcomes-based measure of migration from administrative data¹⁰ alongside the intentions-based measure. When departure cards were removed in November 2018, migration statistics started being calculated solely from this outcomes-based measure.

While provisional figures are released six weeks after the end of the reference month, these will be subject to subsequent revisions as more data becomes available. Stats NZ recommends using migration estimates with a five-month lag, as they are much more stable than the most recent figures. For this reason migration numbers from October 2018 are used in this report.

The switch to using administrative data has caused increases in the provisional estimates of both migrant arrivals and departures. Because the increase in estimated departures was greater, when combined this has resulted in a lower annual net migration estimate by 10,600 people.

Migration data is an essential component of population change, and the December 2018 quarter update to the population estimates was the first to use data from the new migration measure. This will have a flow-on effect to labour market statistics, with the HLFs working-age population estimates expected to reflect the new measure from the September 2019 quarter update onwards.

¹⁰The outcomes-based measure defines migrants by how long they actually stay in or out of New Zealand, rather than how long they intend to stay (as stated on their arrival/departure card). Administrative border-crossing data is used to determine migrant status according to the 12/16 rule (after entering/leaving the individual must remain in/out of New Zealand for 12 of the following 16 months to be recorded as a migrant). This means the final migration estimates are lagged 17 months after the reference period. Stats NZ addresses this lag by using a statistical model to produce provisional estimates for the most recent 17 months.

3. Labour Market Outcomes

■ SUMMARY

- Spare labour capacity was limited, with businesses reporting difficulties in finding labour.
- Underutilisation has fallen, with the largest drop being from those who were underemployed and seeking more hours.
- After several quarters of low wage inflation despite overall labour market tightness, wage growth was stronger than the inflation in the price of goods and services.

Spare labour capacity is shrinking

The unemployment rate fell to 4.2 per cent, down from 4.3 per cent last quarter. Excluding the September 2018 quarter, this is the lowest unemployment rate since the September 2008 quarter, when it was 4.0 per cent. Since peaking in 2012, the unemployment rate has been steadily tracking downwards. The unemployment rate hovering near the 4.0 per cent reached in September 2018 possibly indicates that we are near maximum sustainable employment.¹¹

Fewer part-time workers seeking more hours

The underutilisation rate also fell to 11.3 per cent, down from 12.1 per cent last quarter.¹² This is the lowest underutilisation rate since the December 2008 quarter, when it was also 11.3 per cent. This decrease was reflected across all four categories of underutilisation, but was largely due to a strong decrease in underemployment (down 13.6 per cent or 16,000 people).

The underutilisation rate for men fell to 9.0 per cent while for women it fell to 13.7 per cent. This gender gap is largely due to a difference in underemployment, with 29,000 men and 72,000 women underemployed.

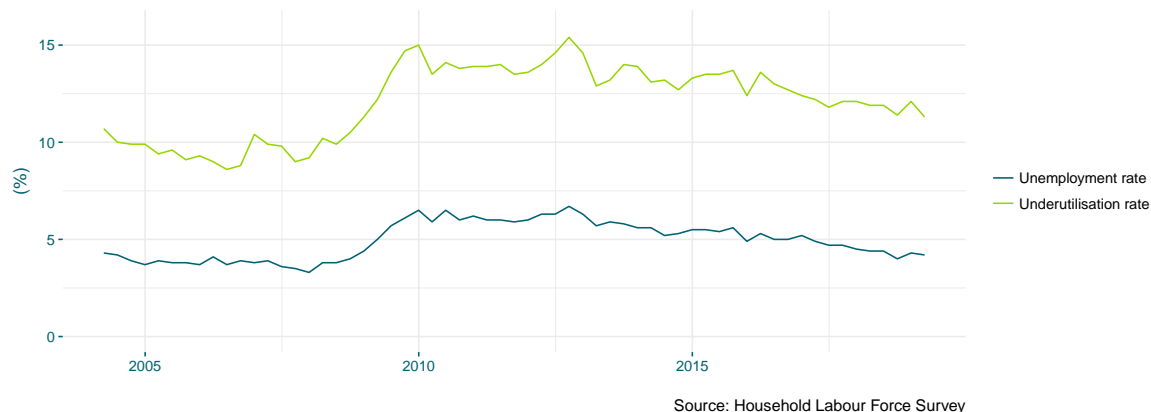
While there were similar reductions in overall underutilisation for both genders, there were a couple of major differences. For men, unemployed numbers fell (down 7,000 people) while both available potential jobseekers and unavailable jobseekers remained steady. Meanwhile for women, unemployed numbers rose (up 3,000 people) while available potential jobseekers and

¹¹Reserve Bank of New Zealand, The remit for the Monetary Policy Committee, February 2019

¹²The underutilisation rate is the number of underutilised people divided by the extended labour force. Underutilised people are anyone unemployed, underemployed (part-timer seeking and available for more hours), an unavailable jobseeker (looking for work, but not yet available to start), or an available potential jobseeker (available for and wanting work, but not actively seeking it). The extended labour force is the labour force (employed plus unemployed) and the potential labour force (unavailable jobseekers plus available potential jobseekers)

unavailable jobseekers fell (down 5,000 and 2,000 people respectively).

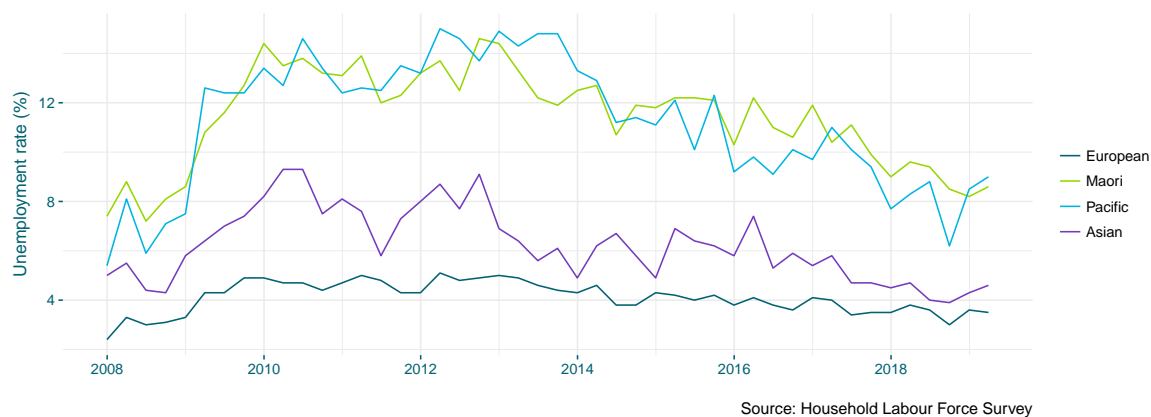
Figure 5: Indicators of spare labour capacity



Long-term trends are positive for all major ethnic groups

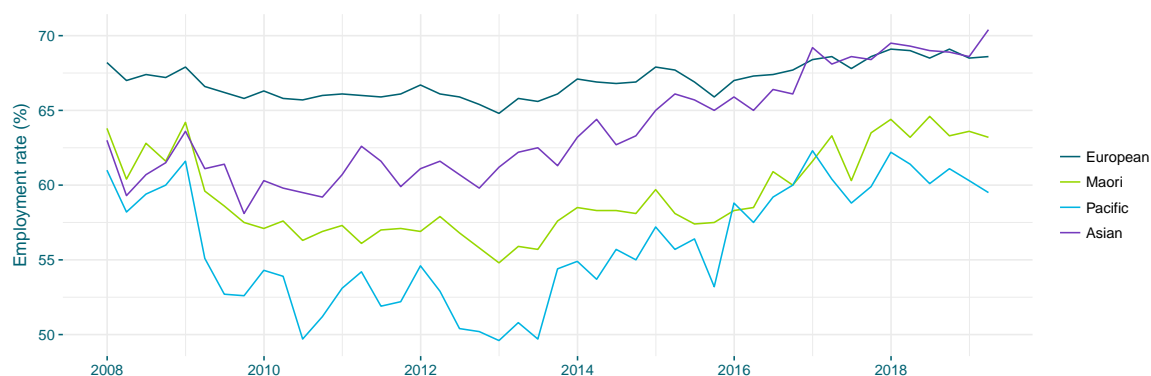
After peaking in 2012, unemployment rates for all of New Zealand’s main ethnic groups have been trending downwards.¹³ However a gap still remains between the labour market outcomes for Māori and Pacific Peoples and other ethnicities.

Figure 6: Unemployment rates by ethnicity



¹³The volatility in the Pacific Peoples unemployment rate is due to limitations of the HLFS in measuring relatively small populations, hence why we look at longer-term trends rather than quarterly or annual changes.

Figure 7: Employment rates by ethnicity



Source: Household Labour Force Survey

Female and male NEET rates have been converging

The seasonally adjusted NEET rate was 13.2 per cent in the March quarter, down from 14.0 per cent last quarter but up from 12.4 per cent a year ago. Despite some recent volatility, the overall NEET rate has been relatively stable since 2012. In the last couple of years there have been stronger-than-usual increases in the NEET rate over summer. This is due to larger decreases in the number of young people in education in the December and March quarters, but no corresponding increase in employment.

From the start of the data series in 2004, female NEET rates have been consistently higher than male NEET rates. From 2016 onwards this gender gap has narrowed, and was the closest on record in the September 2018 quarter, with the NEET rate for women the lowest since records began at 10.4 per cent (34,000 NEET women), while the NEET rate for men was 10.1 per cent (35,000 NEET men).

Work-ready beneficiaries up over the year

Over the year to March 2019, the number of main benefit recipients increased to 286,450 (up 13,063 people or 4.8 per cent).¹⁴ This change was largely driven by an increase in people receiving Jobseeker Support to 131,720 (up 10.9 per cent over the year). Benefit numbers as a proportion of the working-age population increased slightly over the year, with 4.4 per cent of working-age people on Jobseeker Support and 5.1 per cent on some other type of main benefit (mostly either Supported Living Payment or Sole Parent Support).¹⁵

¹⁴Ministry of Social Development, Benefit Fact Sheets, March 2019 quarter

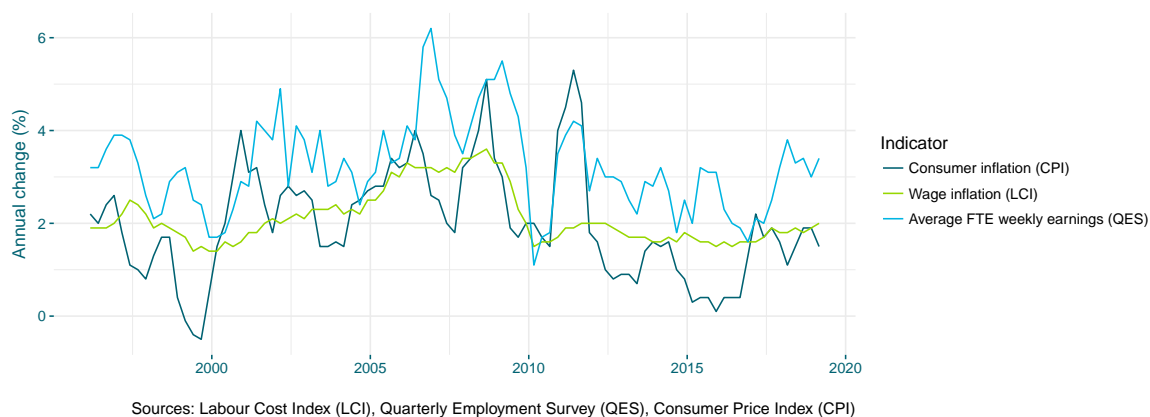
¹⁵In this case working-age population is defined as those aged between 18-64.

The tight labour market is beginning to impact on wage inflation

Average ordinary time hourly earnings (a QES measure) reached \$32.00 an hour, an increase of 1.2 per cent from last quarter and 3.4 per cent over the year. Shifts in QES measures can reflect compositional shifts in the workforce (i.e. people shifting to full-time employment or to higher paying industries). Average weekly paid hours (including overtime) for FTEs saw no change over the year, remaining at 38.76 hours. These combined to create an overall increase in average weekly earnings (including overtime) for FTEs to \$1,243.78.

Wage inflation, as measured by the Labour Cost Index (LCI), increased after several quarters of overall labour market tightness. In the year to March 2019, the LCI rose 2.0 per cent in both the public and private sectors. By comparison the Consumer Price Index (CPI) rose 1.5 per cent over the year, leading to an increase in real wage growth after several quarters of flat real wages. Declines in union density and high levels of underemployment are possibly responsible for low levels of real wage inflation in recent years. The Treasury forecasts wage inflation to strengthen in the next two years.¹⁶

Figure 8: Indicators of wage growth



Collective agreements such as the nurses' pay settlement, which initially came into effect in August 2018 with the remaining two-thirds of the settlement in the December quarter, have pushed up annual wage inflation. By contrast, pay negotiations for teachers were still ongoing at the end of the quarter. The minimum wage increase of \$0.75 in April 2018 was still contributing to annual wage growth in the March 2019 quarter. The larger increase of \$1.20 to \$17.70 implemented in April 2019 will have a larger effect that will be observed in the upcoming quarter, particularly in sectors with traditionally lower wages like Retail and Hospitality.

¹⁶The Treasury, Half Year Economic and Fiscal Update 2018, December 2018

